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MARCHMONT GOLD CORP.

ANNUAL REPORT

MARCHMONT GOLD CORP.

PRESIDENT'S MESSAGE
MAY, 1998

1997 marked the first full year of operations for the Company as Marchmont Gold Corp. with new management and Board of Directors. Much of 1996 was spent restructuring the Company, re-listing on the Alberta Stock Exchange and rectifying problems with title to properties in Mali, West Africa.

During 1997 Marchmont conducted two extensive drilling programs on its gold properties in Mali. These were funded by Marchmont raising net proceeds of $2,863,000. A total of 8,000 metres of drilling was done in 34 holes. While gold was discovered, average grades were insufficient to warrant further drilling due to the precipitous drop in the price of gold.

This, in conjunction with the year which confronted the junior mining sector led to a significant drop in the Company's stock price. Management has begun a review of current operations with a view to diversifying activities beyond Mali.

In keeping with this shift, Mr. Tony Hopkins resigned as Chief Operating Officer. Mr. Nick Clark of CSMA Minerals Limited of Cornwall, England assumed the position of COO and Dr. Phil Newall, also of CSMA, assumed the position of Chief Geologist.

Mr. Clark's experience spans more than two decades including ten years as Technical Services Manager for Ashanti Goldfields Corp. which employs more than 12,000 people in its gold mining operations in Ghana. Mr. Newall has more than fifteen years of experience in the areas of prospect evaluation, exploration, methodology and reserve estimation.

It is expected the review process for additional mining projects will continue throughout the summer and early fall. Once a new project has been identified, the receptiveness of the public market to financing activities of junior exploration companies will be a determining factor on timing of acquisitions and work programs.

Marchmont's current cash position allows the Company to continue operations throughout the remainder of 1998. General and Administrative costs have been cut to a minimum to ensure cash is preserved while this review process is underway.

It is our objective to have at least one new project underway by this fall. Of course, the Company's ability to raise equity will be a key factor in the future.

YEAR 2000

In 1998, the Company will proceed with a year 2000 date conversion project. This project is not expected to add significant incremental costs as the Company does not have proprietary programs and relies on software and equipment suppliers. There is no assurance the systems of other companies on which the Company's systems rely will be timely converted or any such failure to convert by another Company would not have an adverse effect on the Company's systems.

R. P. Antony
President

Consolidated Financial Statements of

MARCHMONT GOLD CORP.
(formerly Timbuktu Gold Corp.)

December 31, 1997 and 1996

Deloitte & Touche

Chartered Accountants

2400 Scotia Centre
700 - 2nd Street S.W.
Calgary, Alberta T2P 0S7

Telephone: (403) 267-1700
Fax: (403) 264-2871

Auditors' Report

To the Shareholders of
Marchmont Gold Corp.
(formerly Timbuktu Gold Corp.):

We have audited the consolidated balance sheets of **Marchmont Gold Corp. (formerly Timbuktu Gold Corp.)** as at December 31, 1997 and 1996, and the consolidated statements of loss and deficit and changes in financial position for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 1997 and 1996, and the results of its operations and the changes in its financial position for the years then ended in accordance with generally accepted accounting principles.

Deloitte & Touche

Calgary, Alberta
March 23, 1998

Chartered Accountants

MARCHMONT GOLD CORP.
(formerly Timbuktu Gold Corp.)

Consolidated Statements of Loss and Deficit
Years Ended December 31, 1997 and 1996

	1997 $	1996 $
REVENUE	**20,843**	52,948
EXPENSES		
Amortization for goodwill	**20,000**	20,000
Bank charges and foreign exchange	**9,078**	-
Consulting	**96,300**	161,777
Directors' fees	**5,196**	5,000
Office	**63,920**	43,840
Professional fees	**99,261**	630,217
Public company costs	**31,517**	34,507
Travel	**-**	50,057
Write-off of mineral properties	**240,275**	-
	565,547	945,398
NET LOSS	**544,704**	892,450
DEFICIT, BEGINNING OF YEAR	**892,450**	-
DEFICIT, END OF YEAR	**1,437,154**	892,450
Loss per share	**0.042**	0.046

MARCHMONT GOLD CORP.
(formerly Timbuktu Gold Corp.)

Consolidated Balance Sheets
December 31, 1997 and 1996

	1997 $	1996 $
ASSETS		
CURRENT		
Cash	193,637	564,026
Accounts receivable	20,844	31,606
Prepaid expenses	-	21,264
	214,481	616,896
Mineral properties (Note 3)	4,667,727	2,150,154
Goodwill (net of accumulated amortization of $40,000; 1996 - $20,000)	60,000	80,000
	4,942,208	2,847,050
LIABILITIES		
CURRENT		
Accounts payable	73,880	297,098
Notes payable (Note 4)	610,000	-
	683,880	297,098
SHAREHOLDERS' EQUITY		
Share capital (Note 5)	5,626,665	3,373,585
Contributed surplus (Note 3)	68,817	68,817
Deficit	(1,437,154)	(892,450)
	4,258,328	2,549,952
	4,942,208	2,847,050

APPROVED BY THE BOARD

..................................Director
Raymond P. Antony

..................................Director
Grant Howard

MARCHMONT GOLD CORP.
(formerly Timbuktu Gold Corp.)

Consolidated Statements of Changes in Financial Position

Years Ended December 31, 1997 and 1996

	1997 $	1996 $
NET INFLOW (OUTFLOW) OF CASH RELATED TO THE FOLLOWING ACTIVITIES		
OPERATING		
Net loss	**(544,704)**	(892,450)
Items not affecting cash		
Amortization of goodwill	**20,000**	20,000
Write-off of mineral properties	**240,275**	-
	(284,429)	(872,450)
Changes in non-cash operating working capital items	**(191,192)**	244,228
	(475,621)	(628,222)
FINANCING		
Assistance agreements payable	**-**	(62,100)
Issue of common shares	**1,250,080**	5,348,900
Issue of special warrants	**1,003,000**	-
Cancellation of common shares	**-**	(2,285,070)
Notes payable	**610,000**	-
	2,863,080	3,001,730
INVESTING		
Mineral property exploration	**(2,757,848)**	(2,002,462)
NET CASH (OUTFLOW) INFLOW	**(370,389)**	371,046
CASH POSITION, BEGINNING OF YEAR	**564,026**	192,980
CASH POSITION, END OF YEAR	**193,637**	564,026

1. CORPORATE NAME CHANGE

The Company changed its name to Marchmont Gold Corp. on May 6, 1997.

2. SIGNIFICANT ACCOUNTING POLICIES

These consolidated financial statements have been prepared in accordance with accounting principles generally accepted in Canada.

Basis of consolidation

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiary, Marchmont Resources Limited.

Mineral properties

All acquisition, exploration, development and administrative costs related to exploration and development of mineral properties are capitalized on a property by property basis. The costs of abandoned properties are charged to expense in the year of abandonment. The costs of producing properties will be depleted by the unit-of-production method based upon estimated proven reserves once commercial production commences.

The recoverability of amounts shown for mineral properties is dependent upon the discovery of economically recoverable reserves, the ability of the Company to obtain necessary financing to complete the development, and future profitable production from the properties or proceeds from disposition.

Goodwill

Goodwill is being amortized on a straight-line basis over five years. The recoverability of goodwill is assessed annually based on future estimated cash flows.

Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of the revenues and expenses during the reporting period. Actual results could differ from those estimates.

3. MINERAL PROPERTIES

	1997					
	License Fee $	Assistance Agreements $	Equipment $	Deferred Exploration Costs $	Write-Off $	Total $
Concession						
Co-operative	-	128,548	223,526	4,315,653	-	4,667,727
Kasse	731	70,200	-	8,385	(79,316)	-
Diakite	320	86,870	-	73,769	(160,959)	-
	1,051	285,618	223,526	4,397,807	(240,275)	4,667,727

	1996				
	License Fee $	Assistance Agreements $	Equipment $	Deferred Exploration Costs $	Total $
Concession					
Co-operative	-	128,548	197,137	1,649,577	1,975,262
Kasse	731	70,200	-	8,385	79,316
Diakite	320	86,870	-	8,386	95,576
	1,051	285,618	197,137	1,666,348	2,150,154

In 1991, the Republic of Mali passed laws (the "Mali Mining Code") relating to the exploration and mining of mineral substances in Mali, including approving a standard "convention of establishment", being the principal agreement entered into between the Republic of Mali (the "State") and the private exploration and development company. The Concessions are evidenced by conventions of establishment (collectively, the "Conventions") and authorizations to prospect ("Prospection Authorizations") issued, or to be issued, pursuant to these Conventions.

3. MINERAL PROPERTIES (Continued)

Each of the Conventions has been entered into by the State with Mali individuals or companies (the "Holders"). The Conventions set forth the conditions in which the research and mining activities are to be carried out by the Holders and provides such holders with a number of "guarantees" granted by the State. For example, the State guarantees and maintains the economic, financial, tax and customs terms set forth in the Conventions throughout their respective terms and that the holder will be immune from any laws enacted after the execution of the Conventions unless the holder agrees in writing to accept such new laws. In addition, the Conventions set forth an exhaustive listing of the taxes imposed upon the Holders, which change at various stages of the project, all as detailed in the Conventions. This includes a 45% tax on profits after a five year exempt period following first production from the mine.

The Conventions provide that the State must grant a mining permit to the Holders if there is discovered a "commercially viable deposit" in the area covered by the Prospection Authorizations during its term. The Mali Mining Code stipulates that a mining permit may normally not exceed a total term of 30 years. Upon a granting of a mining permit, the Holder must immediately transfer such permit to a Mali mining company incorporated by the Holder. The Conventions do not provide for an entitlement of the State to royalties or share capital in the Mali mining company. However, under the Mali Mining Code, the State is entitled to receive a minimum of 10% and a maximum of 20% of the equity of the Mali mining company. While it is not presently expected that the State will assert such rights, there is no assurance that they will not do so.

On December 22, 1995, only two of the Conventions and Prospection Authorizations had been issued to the Holders, being Mr. Boubakar Kasse ("Kasse") and Mr. Moctar Diakite ("Diakite"), both Mali citizens. Airdrie represented to the Corporation at that time that the additional two Conventions and Prospection Authorizations would be issued by mid January 1996. In fact, to date only one additional Convention and Prospection Authorization has been issued, the Holder being a Mali company, La Co-operative des Orpailleurs Sitakily (the "Co-operative").

3. MINERAL PROPERTIES (Continued)

Airdrie acquired rights in the Concessions pursuant to certain assistance agreements and financial agreements (collectively, the "Assistance Agreements") that were entered into with the present and proposed Holders in July and August of 1995. Each of these Assistance Agreements concede to Airdrie the economic rights under the Conventions and Prospection Authorizations, if and when issued as well as those under mining permits to be issued to them by the State upon discovery of commercially viable deposits. In general, the Assistance Agreements provide that Airdrie is to carry out, at its expense, all of the research activities. In consideration for carrying out these activities and certain other payments, summarized below, Airdrie is to pay to the Holders 5% of the gold mined from the Concessions.

All of Airdrie's rights and obligations in the Assistance Agreements, as set forth above, were assigned to Marchmont Resources Ltd. ("Marchmont") immediately prior to the purchase of the shares of Marchmont by the Corporation. As a result, the Corporation's interest in the Concessions was held by its wholly owned subsidiary, Marchmont, whose interest was represented by the Assistance Agreements.

The Assistance Agreements in respect of the Co-operative and Diakite Concessions were superseded and replaced by Execution and Assistance Agreements (the "Novation Agreements") made between Marchmont and the Holders. The purpose of the Novation Agreements was to demonstrate a direct contractual relationship between these Holders and Marchmont with respect to the economic rights held by Marchmont in these Concessions, rather than holding such rights through an assignment from Airdrie. The completion of the Novation Agreements did not change the legal relationship between Marchmont and these Holders.

The Novation Agreements and Assistance Agreements provide that in the event that gold ore reserves of less than five tonnes are discovered on the property comprising each Concession, Marchmont shall withdraw from the project without any prejudice to the Holder and the Holder will be permitted to keep all funds paid and information provided during the exploration phase. The Assistance Agreement for the Kasse Concession does not contain such a provision. In addition, there are certain other obligations imposed on Marchmont in certain of the agreements such as retaining an accounting firm to prepare monthly reports on the progress of exploration, providing representation on the board of directors of the mining company, hiring members of certain Mali companies as employees, assisting with various infrastructure projects and providing technical expertise to the project. The costs associated with these commitments have not yet been specified, nor incurred.

3. MINERAL PROPERTIES (Continued)

The acquisition cost for Marchmont in 1995 in respect of the two Concessions that were issued was $130,921, consisting of $68,821 of costs incurred by Airdrie and $62,100 payable to the two Holders. The transaction resulted in contributed surplus of $68,817.

The only Concession in which Marchmont is entitled to continue exploration activities at this time, is the Co-operative Concession.

4. NOTES PAYABLE

The notes payable were due on October 31, 1997 and bear interest at a rate of 5%. They are convertible to 2,259,259 common shares at $0.27 per share. (See Note 7)

5. SHARE CAPITAL

Authorized
Unlimited number of common shares
Unlimited number special warrants

Issued

	Number of shares	Amount $
(i) Common shares		
Balance, December 31, 1995	17,097,043	309,755
Exercise of warrants and stock options	267,602	564,900
Private placement of common shares (net of issuance costs of $416,000)	4,000,000	4,784,000
Cancellation of shares (Note 5(a))	(9,800,000)	(2,285,070)
Balance, December 31, 1996	11,564,645	3,373,585
Exercise of stock options	75,000	97,500
Private placement of common shares and special warrants (net of issuance costs of $140,420)(Note 5(b))	590,000	862,580
Private placement of common shares (net of issuance costs of $10,000)	1,111,111	290,000
Balance, December 31, 1997	13,340,756	4,623,665
(ii) Special warrants		
Private placement (Note 5(b))	590,000	1,003,000
		5,626,665

a) Cancellation of shares

Pursuant to a Settlement Agreement dated July 3, 1996, a receivable was settled when an affiliated company surrendered for cancellation to the Company 9,800,000 common shares of the Company.

5. SHARE CAPITAL (Continued)

b) Private placement of common shares and special warrants

On February 19 and 20, 1997, the Company completed private placements of 590,000 units, comprising one common share and 1/2 warrant exercisable for $2 and 590,000 special warrants, respectively, at a price of $1.70 each, resulting in aggregate cash consideration received by the Company of $1,865,580 (net of issuance costs of $140,420).

c) Options

At December 31, 1997, the Company has granted to directors and officers options to purchase 900,000 common shares, exercisable at $0.30 per share, expiring March 22, 2001 to May 2, 2002. On March 3, 1998, 400,000 of these options expired as a result of the resignation of an officer on December 1, 1997.

6. RELATED PARTY TRANSACTIONS

Management fees in the amount of $96,300 (1996 - $100,200) were paid to a former officer and to a company controlled by a current officer of the Company. These amounts are included in consulting expense.

7. SUBSEQUENT EVENT

In January 1998, the Company converted $610,000 notes payable to common shares at $0.27 per common share, resulting in 2,259,259 common shares being issued.